

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2008

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INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2008 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 41 through 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Salisbury, Maryland
June 16, 2008

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2008**

As management of the Town of Bethany Beach, Delaware (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2008. We encourage readers to consider this information in conjunction with the additional information that we have furnished in the Town's financial statements that follow this section.

Financial Highlights for FY 2008

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2008 by \$16,601,630 (net assets). Of this amount, \$5,183,102 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$894,149 (an increase of 5.7%) in fiscal year 2008. Net assets of governmental activities increased by \$501,509, while net assets of the Water department increased by \$392,640.

As of the close of fiscal year 2008 the Town's governmental funds reported an ending fund balance of \$4,494,954. Of this amount, \$753,000 is held for beach and boardwalk improvements, \$250,000 is held for emergencies, \$974,000 is held for replacement of sanitation trucks, \$1,213,000 is held for future capital replacements and \$586,000 is held for capital purchases in FY 2009.

This leaves \$718,954 as undesignated at the end of fiscal year 2008. The unreserved, undesignated fund balances for the governmental fund represents 15.5% of the general fund operating expenditure budget for fiscal year 2009.

The Town's bonds and notes payable increased by \$11,851 (0.6%) as a result of regular, scheduled payments on current debt and the addition of employee pension related debt. 76.5% of the Town's total bonds and notes payable of \$2,118,954 is payable within the next 5 years. The remaining \$498,454 is the outstanding bond for the water plant, which will be paid off in fiscal year 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to private-sector business. The statements provide both short-term and long-term information about the Town's financial position which assists in assessing financial position.

The statement of net assets presents information on all of the Town's assets and liabilities with the difference reported as net assets. Increases or decreases in net assets over time may serve as an indicator of whether the Town's financial position is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during this fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs,

regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Both of the above financial statements have separate sections for two different types of programs or activities. These two types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes, fees, parking revenue and grants from Federal, State and other sources. Most services normally associated with municipal government fall into this category, including general government, public safety, street maintenance, solid waste disposal, economic development and recreational activities.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activity of the Town is the water department which operates with minimal assistance from the governmental activities of the Town.

The government-wide financial statements can be found on pages 16-17 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These statements provide a detailed short-term view of the Town's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Town.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town has three governmental funds: the General Fund, the Special Revenue Fund (used to account for State and Federal grants) and the Capital Projects Fund. The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers they are also known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Town has one proprietary fund, the water department. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Specifically, Note 2 summarizes the Town's significant accounting policies and provides definitions for many of the terms used throughout this report.

The notes to the financial statements can be found on pages 25-39 of this report.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined net assets (government and business-type activities) totaled \$16,601,630 at the end of fiscal year 2008, compared to \$15,707,481 at the end of fiscal year 2007, an increase of \$894,149 or 5.7%.

The largest portion of the Town's net assets (68.8%) reflects its investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Town follows a written investment policy, which is reviewed annually. The primary objective of Town investments in priority order are safety, liquidity and then return on investment. The Town seeks investments that are collateralized and diverse by type, institution and maturity date. Authorized investments include United States government securities, certificates of deposit, money market accounts in commercial banks, commercial bank saving accounts and the Delaware Local Government Investment Pool.

The Delaware Local Government Investment Pool (DELGIP) is an investment pool managed by the State of Delaware. Local governments are permitted to invest in this pool, which has historically shown a good return on investment. Funds placed in this pool are managed by the Office of the State Treasurer in accordance with State policy. In addition to the types of investment specifically authorized in the Town's policy, the State allows investments in corporate debt, repurchase agreements, reverse repurchase agreements and securities. Local government investment pools such as this one are not registered, insured or guaranteed. Regardless of this higher level of risk, the Town feels secure investing in this pool based on the State Treasurer's Office's oversight and excellent financial history.

The following table is a summary of the government-wide statement of net assets:

Town of Bethany Beach
Summary of Statement of Net Assets
March 31, 2008

	Governmental Activities		Business-Type Activities		Total		%
	2008	2007	2008	2007	2008	2007	Change
Current Assets	4,822,475	4,066,616	885,885	670,332	5,708,360	4,736,948	20.5%
Capital Assets	9,359,594	9,286,317	3,737,906	3,907,498	13,097,500	13,193,815	-0.7%
Other Assets	<u>11,181</u>	<u>14,937</u>	<u>476,813</u>	<u>437,874</u>	<u>487,994</u>	<u>452,811</u>	7.8%
Total Assets	<u>14,193,250</u>	<u>13,367,870</u>	<u>5,100,604</u>	<u>5,015,704</u>	<u>19,293,854</u>	<u>18,383,574</u>	5.0%
Long-Term Liabilities	505,152	215,974	1,391,662	1,627,385	1,896,814	1,843,359	2.9%
Other Liabilities	<u>497,178</u>	<u>462,485</u>	<u>298,232</u>	<u>370,249</u>	<u>795,410</u>	<u>832,734</u>	-4.5%
Total Liabilities	<u>1,002,330</u>	<u>678,459</u>	<u>1,689,894</u>	<u>1,997,634</u>	<u>2,692,224</u>	<u>2,676,093</u>	0.6%
Invested in capital assets, net of related debt	9,279,991	9,054,379	2,138,537	2,026,359	11,418,528	11,080,738	3.0%
Unrestricted	<u>3,910,929</u>	<u>3,635,032</u>	<u>1,272,173</u>	<u>991,711</u>	<u>5,183,102</u>	<u>4,626,743</u>	12.0%
Total Net Assets	<u>13,190,920</u>	<u>12,689,411</u>	<u>3,410,710</u>	<u>3,018,070</u>	<u>16,601,630</u>	<u>15,707,481</u>	5.7%

The remaining balance of unrestricted net assets (\$5,183,102) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased \$556,359 as the Town created reserves specifically for future capital replacements in the FY 2009 budget.

Most of the current and other assets listed above are in cash and investments. These two classes of assets combined increased \$1,006,595 (19.4%) as cash was invested for future needs. The remaining assets in these categories are made up of receivables and prepaid expenses, which have decreased \$25,967 (4.4%) from fiscal year 2007 mainly from a reduction in grant reimbursements due to the Town from the State of Delaware.

The Town's investment in capital assets decreased 0.7% to \$13,097,500 in fiscal year 2008 as annual depreciation exceeded new purchases. Long-term liabilities increased 2.9% (\$53,455) from scheduled payments and the first year of pension related debt while other liabilities decreased 4.5% (\$37,324).

The following table is a summary of the government-wide statement of activities:

Town of Bethany Beach
Summary of Statement of Activities
March 31, 2008

	Governmental Activities		Business-Type Activities		Total		%
	2008	2007	2008	2007	2008	2007	Change
Revenues:							
Program Revenues							
Charges for services	2,573,793	2,327,432	861,851	836,976	3,435,644	3,164,408	8.6%
Assessments & impact fees	-	-	502,140	483,626	502,140	483,626	3.8%
Operating grants	101,640	143,745	-	-	101,640	143,745	-29.3%
Capital grants	278,337	312,886	-	14,933	278,337	327,819	-15.1%
General Revenues							
Property taxes	1,514,575	747,368	-	-	1,514,575	747,368	102.7%
Rental real estate taxes	765,491	758,934	-	-	765,491	758,934	0.9%
Transfer taxes	706,862	852,192	-	-	706,862	852,192	-17.1%
Other	248,246	225,759	36,222	25,248	284,468	251,007	13.3%
Total Revenues	6,188,944	5,368,316	1,400,213	1,360,783	7,589,157	6,729,099	12.8%
Expenses:							
General and administration	1,200,814	972,936	-	-	1,200,814	972,936	23.4%
Licenses and inspections	178,126	185,596	-	-	178,126	185,596	-4.0%
Public Safety:							
Police and Alderman	1,530,998	1,291,303	-	-	1,530,998	1,291,303	18.6%
Parking	325,692	263,959	-	-	325,692	263,959	23.4%
Beach Patrol	314,140	310,205	-	-	314,140	310,205	1.3%
Public Works:							
Stormwater management	216,304	296,468	-	-	216,304	296,468	-27.0%
Streets and Parks	901,133	893,390	-	-	901,133	893,390	0.9%
Sanitation	529,799	520,406	-	-	529,799	520,406	1.8%
Natter Trails	-	157,765	-	-	-	157,765	100.0%
Beach and boardwalk	385,553	305,202	-	-	385,553	305,202	26.3%
Recreation - entertainment	95,636	134,268	-	-	95,636	134,268	-28.8%
Cultural and Historical	9,240	15,790	-	-	9,240	15,790	-41.5%
Water Department			1,007,573	1,025,089	1,007,573	1,025,089	-1.7%
Total Expenses	5,687,435	5,347,288	1,007,573	1,025,089	6,695,008	6,372,377	5.1%
Change in Net Assets	501,509	21,028	392,640	355,694	894,149	356,722	150.7%
Net Assets, beginning of year	12,689,411	12,668,383	3,018,070	2,682,376	15,707,481	15,350,759	2.3%
Net Assets, end of year	13,190,920	12,689,411	3,410,710	3,018,070	16,601,630	15,707,481	5.7%

The Town's total net assets increased \$894,149 or 5.7%. Approximately 39.4% of the Town's total revenue came from taxes. Total revenues increased \$860,058 or 12.8% while total expenses increased \$322,631 or 5.1%. The increase in net assets is a direct result of Town Council and Budget Committee efforts to provide adequate funding for the financial needs of the Town for the next five to ten years.

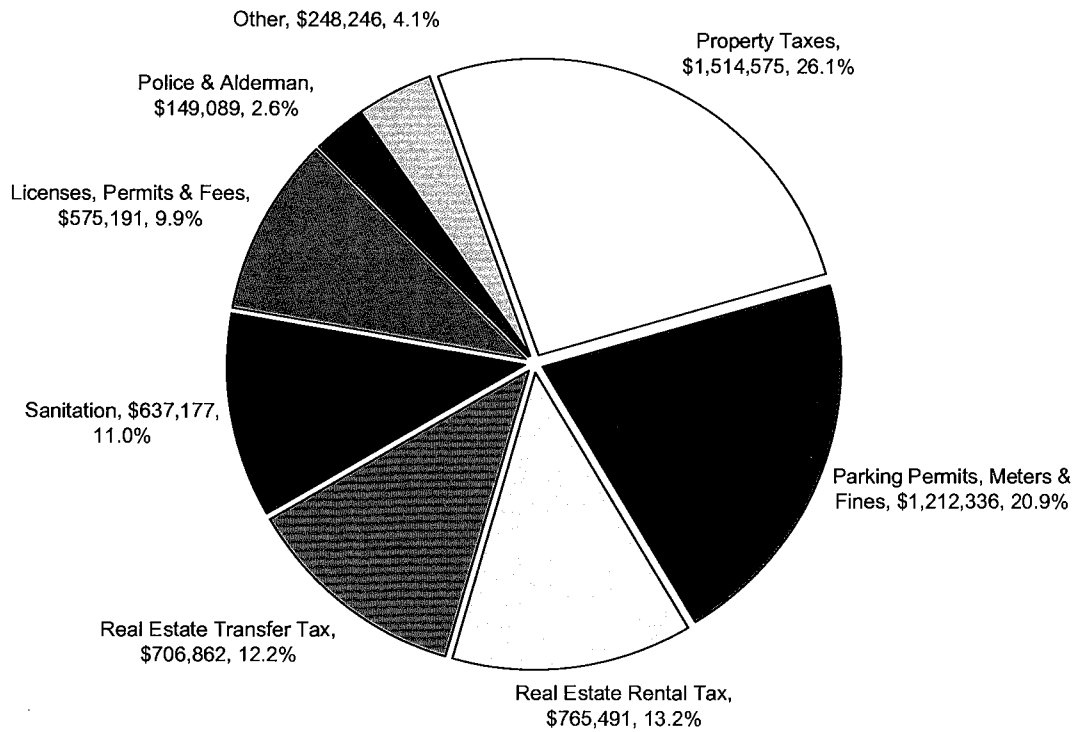
Governmental activities

Major revenue sources and key factors in the revenue increase of \$820,628 (15.3%) for governmental activities are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

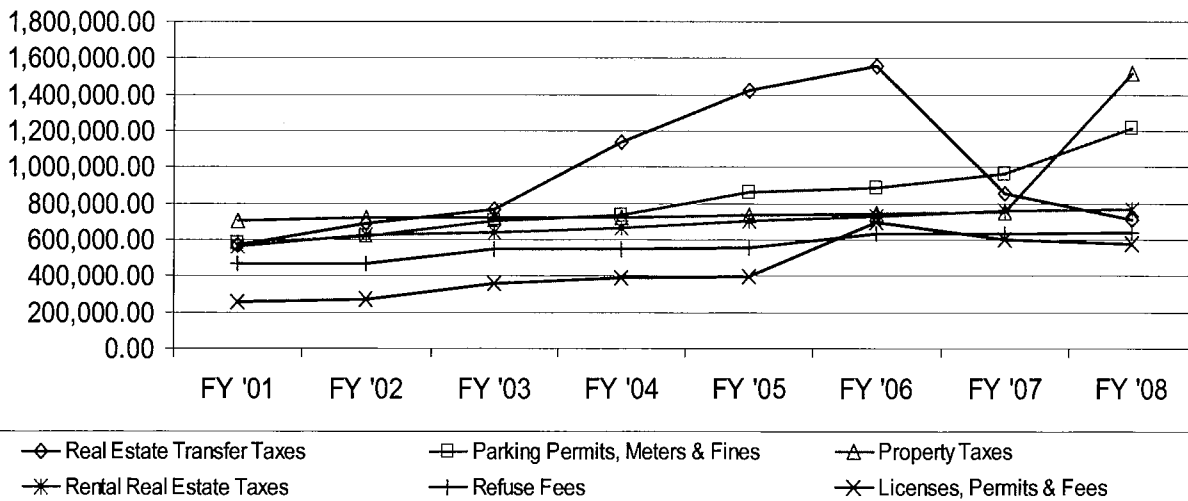
1. Property Tax revenue totaled \$1,514,575 and was the Town's largest single source of funding. These revenues increased 102.7%, or \$767,207, since fiscal year 2007 due to the decision by council in March 2007 to increase the property tax rate from \$0.08 to \$0.16 per \$100 of assessed value. One of the main reasons for this rate increase was to decrease the Town's reliance on real estate transfer taxes, which have declined dramatically in the past few years. As a percentage of general fund revenue, property tax increased from 15.2% in fiscal year 2007 to 26.1% in fiscal year 2008.
2. Revenues from parking fines, parking meters, and parking permits totaled \$1,212,336 and were the Town's second largest revenue source. These revenues increased 26.0%, or \$250,275, due to an increase in meter rates and fine amounts. As a percentage of general fund revenue, parking increased from 19.6% in fiscal year 2007 to 20.9% in fiscal year 2008.
3. Real estate rental taxes were the Town's third largest revenue source at \$765,491. These revenues increased 0.9% or \$6,557. As a percentage of total general fund revenue, rental taxes decreased from 15.5% in fiscal year 2007 to 13.2% in fiscal year 2008.
4. Real estate transfer taxes were the Town's fourth largest revenue source at \$706,862. These revenues decreased 17.1% or \$145,330 due to the nationwide decline in the housing market. As a percentage of general fund revenue, transfer taxes decreased from 17.4% in fiscal year 2007 to 12.2% in fiscal year 2008.
5. Sanitation fees were the fifth largest source of revenue at \$637,177. This revenue increased 0.5%, or \$3,143. These funds are used to support the sanitation department operating costs and capital needs. For fiscal year 2009 and on the Town will report Sanitation as a separate business-type activity.
6. Licenses, permits and other fees were the sixth largest revenue source at \$575,191. This revenue decreased 3.8%, or \$22,755 due to a reduction in building permits from the housing market decline. As a percentage of general fund revenue, licenses, permits and other fees decreased from 12.2% in fiscal year 2007 to 9.9% in fiscal year 2008.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2008 and the trend of our six largest revenue sources over the past eight fiscal years. Special fund revenue is not included in these charts due to the variable nature of State and Federal grants.

FY 2008 Revenue Sources



Trends in Major Revenue Sources



The Town's expenses for all governmental activities combined cover a range of services and increased 6.4%, or \$340,147 from fiscal year 2007 primarily due to the following:

1. The Town joined the State of Delaware's Municipal Pension Plans for all full time employees and agreed to pay \$558,300 for a portion of the prior service of current employees. \$277,000 of this is included as an expense in General and Administration. The remaining \$281,300 is specific to police officers and so is included as an expense of the Police Department. The Town has set up a five-year payment schedule for this one-time expense.
2. Spending of State grant funds decreased \$76,108 from the prior year. Grant funding can vary widely from year to year as projects are completed.
3. With the above two items excluded the Town's spending on all governmental activities actually decreased \$142,045.

Business-type activities

The water department is the Town's only business-type activity and is accounted for in its own fund. Starting in fiscal year 2009 the Town will also treat the sanitation department as a business-type activity.

Water department revenues increased 2.9%, or \$39,430. The two main reasons for this increase are an increase in gallons of water used by customers and an increase in interest earned due to investing of funds reserved for future capital replacements.

Water department expenses decreased 1.7% or \$17,516 since fiscal year 2007 mainly from a decrease in repairs and maintenance needed in this particular year.

Financial Analysis of the Town's Funds

As noted previously, the Town used fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

Governmental fund accounting provides information on available or spendable resources. This information is useful in assessing the Town's financing requirements for operations. The amount of unreserved fund balance may serve as a useful measure of the Town's net resources available for spending and for future needs. Unreserved fund balance provides a reserve for emergencies and provides working capital to pay the Town's bills.

During fiscal year 2008, the Town's governmental fund balance increased \$723,552 to \$4,494,954. The main cause of this increase is that more funds are being held in investments for future capital replacements. In the fiscal year 2009 budget process the Budget Committee proposed, and Town Council approved, the formation of a reserve for future replacement of capital assets in the amount of \$1,213,000. The main source of funding for this reserve is real estate transfer tax revenue. These funds are to be used only for replacement of currently or recently owned assets.

A significant portion of fund balance, \$3,776,000 or 84.0%, is designated to indicate that it is not available for new spending because it has been committed elsewhere. Currently these designations are:

1. Designated for beach & boardwalk	\$753,000
2. Designated for emergencies	\$250,000
3. Designated for sanitation department capital needs	\$974,000
4. Designated for capital improvements in the coming fiscal year	\$586,000
5. Designated for future capital replacements	\$1,213,000

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, storm water drainage, solid waste disposal, parks, recreation and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to general fund expenditures.

Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements. Net assets for the water department increased \$392,640 to \$3,410,710. Although operating revenues increased and operating expenses decreased, the water department still had a net operating loss of \$45,154. This is less than the net operating loss of \$55,331 in fiscal year 2007.

The water department seeks to set prices to cover the cost of operations and the annual depreciation of infrastructure as well as providing funding for future capital needs. With this goal in mind water rates were increased effective April 1, 2008. This increase will be first seen on the water bills to be mailed in October of 2008. The rate increase will end this operating loss and allow funding for the future capital needs of the water plant and distribution system.

General Fund Budgetary Highlights

General fund revenues exceeded the amount budgeted by \$364,813 (6.7%). Real estate transfer taxes exceeded the amount budgeted by \$106,862, although this revenue declined \$145,330 from the prior year it did not decline as sharply as we were prepared for in the budget. Interest income exceeded the amount budgeted by \$100,674 from favorable investments made with local banks and an increase in the total amount of funds held in interest earning investments. The only revenue which did not reach the amount budgeted was licenses, permits and fees due to a decline in new building permit applications.

The Town Council approved several mid year changes to the general fund operating budget as follows:

1. \$277,000 was added to general and administration and \$281,300 was added to the police department to fund the decision to buy in a portion of the past service of full time employees in joining the State of Delaware's municipal pension plans.
2. \$25,000 was added to general and administration to fund the first year of a three-year commitment to donate a total of \$75,000 toward construction of the new South Coastal Library.
3. \$60,000 was added to the parking budget to fund refurbishment of parking meters throughout Town.
4. \$23,000 was added to the beach patrol budget to fund additional seasonal lifeguards, which were needed for safety reasons.

General fund expenditures as a whole were under the amended budget by 5.7% or \$290,473. One department, Parking, did exceed the amount budgeted, but only by \$99. The budgetary comparison schedule for the general fund can be found on page 41.

Capital Assets

The Town's investment in capital assets increased as follows:

Governmental Activities	FY 2008 Additions
Beach & Boardwalk	\$166,604
Buildings & Improvements	\$53,657
Land Improvements	\$114,779
Machinery & Equipment	\$129,921
Streets	\$163,906
Vehicles	\$148,680
Total	<hr/> \$777,547

Business-Type Activities	FY 2008 Additions
Construction in Progress	\$25,258
Water Plant & Distribution System	\$38,002
Total	<hr/> \$63,260

The Town Council amended the capital budget mid-year to cover the cost of three specific items. \$37,000 was added to Beach and Boardwalk for building dune crossovers and ramps. \$31,000 was added to Beach and Boardwalk for a lighting system for the bandstand. \$7,000 was added to the Parking budget for the unexpected replacement of a computer server.

Beach & Boardwalk had the largest capital expenditures in FY 2008 at \$166,604. \$120,159 of this was from structural repairs and improvements, which needed to be done prior to beach replenishment while the underside of the boardwalk was easily accessible. \$36,548 was for the development of dune crossovers and ramps after replenishment was completed. The remaining \$9,897 was for a lightning warning system. The beach replenishment project itself was funded directly by the State and Federal government.

Streets had the second highest capital expenditures at \$163,906 for road resurfacing. \$123,500 of this amount was funded by the State of Delaware Municipal Street Aid grant.

Vehicles amounted for \$148,680 in capital expenditures this year. \$116,855 of this was for a new trash truck. \$31,825 was for a new police car, which was funded entirely from County and State grants.

Machinery & Equipment capital expenditures totaled \$129,921. \$123,558 was police equipment purchased with grant funds or received directly from the State. The remaining \$6,363 was the purchase of a computer server for the parking department.

Land Improvements of \$114,779 was for work at the Bethany Beach Nature & Conservancy Center while Buildings & Improvements of \$53,657 was for the pavers and lighting system at the Bandstand. The Water Department spent \$38,002 on distribution system items such as pumps and tanks.

Debt Administration

As of March 31, 2008 the Town had \$1,540,054 in outstanding long-term bonds payable for debt originally issued in 1989 for construction of the water plant and water distribution system. Seven years remain on this debt.

The Town also has a total of \$578,900 in loans of 5 years or fewer. \$443,300 of this was new debt in FY 2008 from the payment plan for purchase of prior year service for full time employees entering the State of Delaware Municipal Pension plans. The town has strived to keep its level of debt relatively low by financing for 5 years or less whenever possible.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2008 as reported in these financial statements with the following exceptions.

Real estate transfer tax revenue is very unpredictable but is not expected to keep declining. We expect to receive anywhere from \$450,000 to \$800,000 in fiscal year 2009.

For fiscal year 2009, the town council approved rate increases for water usage fees. The water rate increase was needed because the water department has had a net operating loss for the past several years (as shown on page 23) and because funding is needed for additional capital projects in the near future.

Summer visitors are expected in high numbers again this year.

The fiscal year 2009 budget was approved in March of 2008. The operating budget for all town activities combined is \$147,400 (2.8%) more than the fiscal year 2008 operating budget. Beginning in fiscal year 2009 the sanitation department will be treated as a separate, business-type activity.

Capital projects for fiscal year 2009 include:

- \$225,000 for two new trash trucks
- \$200,000 for parks, conservation and open space
- \$200,000 for drilling of the new well which is currently in process
- \$170,000 for repairs and improvements to the water distribution system
- \$100,000 to replace the aerator in the water plant to increase capacity
- \$125,000 for machinery and equipment at the water plant
- \$85,000 for installation of solar panels on Town Hall

Requests for Information

This report is designed to provide an overview of the Town of Bethany Beach's finances for those interested. Questions concerning any of the information found in this report, or requests for additional information should be directed to the Town Manager's Office, Town of Bethany Beach, P.O. Box 109, Bethany Beach, DE 19930.

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET ASSETS

March 31, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,790,447	\$ 325,645	\$ 2,116,092
Investments	2,772,786	250,000	3,022,786
Receivables:			
Taxes - real and personal property	7,054	-	7,054
Sanitation fees	3,652	-	3,652
Water charges	-	284,808	284,808
Interest	89,359	-	89,359
Intergovernmental	1,776	-	1,776
Other	40,181	7,141	47,322
Prepaid expenses	116,872	18,639	135,511
Internal balances	348	(348)	-
Total current assets	4,822,475	885,885	5,708,360
Noncurrent assets			
Restricted Assets			
Cash and cash equivalents	11,181	431,759	442,940
Capital assets at cost	14,426,267	6,282,554	20,708,821
Less accumulated depreciation	(5,066,673)	(2,544,648)	(7,611,321)
Bond issue cost, net of amortization	-	45,054	45,054
Total noncurrent assets	9,370,775	4,214,719	13,585,494
Total assets	\$ 14,193,250	\$ 5,100,604	\$ 19,293,854
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 158,372	\$ 12,571	\$ 170,943
Employee withholdings and payroll taxes	48,186	894	49,080
Accrued interest	33,376	36,432	69,808
Deferred revenue	85,131	2,897	88,028
Bonds and notes payable	155,821	244,635	400,456
Lease purchase obligation	2,655	-	2,655
Compensated absences liability	13,637	803	14,440
Total current liabilities	497,178	298,232	795,410
Noncurrent liabilities			
Bonds and notes payable	363,764	1,354,734	1,718,498
Lease purchase obligation	663	-	663
Compensated absences liability	140,725	36,928	177,653
Total noncurrent liabilities	505,152	1,391,662	1,896,814
Total liabilities	1,002,330	1,689,894	2,692,224
NET ASSETS			
Invested in capital assets, net of related debt	9,279,991	2,138,537	11,418,528
Unrestricted	3,910,929	1,272,173	5,183,102
Total net assets	\$ 13,190,920	\$ 3,410,710	\$ 16,601,630

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES Year Ended March 31, 2008

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government		
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 1,200,814	\$ -	\$ -	\$ -	\$ (1,200,814)	\$ -	\$ (1,200,814)
Licenses and inspections	178,126	575,191	-	-	397,065	-	397,065
Public Safety							
Police and Alderman fines and revenue	1,530,998	149,089	76,373	155,383	(1,150,153)	-	(1,150,153)
Parking	325,692	1,212,336	-	-	886,644	-	886,644
Beach Patrol	314,140	-	-	-	(314,140)	-	(314,140)
Public works							
Stormwater management	216,304	-	-	-	(216,304)	-	(216,304)
Streets and parks	901,133	-	25,267	122,954	(752,912)	-	(752,912)
Sanitation	529,799	637,177	-	-	107,378	-	107,378
Beach and boardwalk	385,553	-	-	-	(385,553)	-	(385,553)
Recreation - entertainment	95,636	-	-	-	(95,636)	-	(95,636)
Historical/Cultural	9,240	-	-	-	(9,240)	-	(9,240)
Total Governmental Activities	5,687,435	2,573,793	101,640	278,337	(2,733,665)	-	(2,733,665)
BUSINESS-TYPE ACTIVITIES							
Water	1,007,573	861,851	502,140	-	-	356,418	356,418
Total Primary Government	\$6,695,008	\$ 3,435,644	\$ 603,780	\$ 278,337	\$ (2,733,665)	\$ 356,418	\$ (2,377,247)
General Revenues							
Taxes:							
Property					1,514,575	-	1,514,575
Rental real estate					765,491	-	765,491
Transfer					706,862	-	706,862
Interest					165,386	36,222	201,608
Special item - sale of assets					3,087	-	3,087
Insurance proceeds					52,055	-	52,055
Other					27,718	-	27,718
Total General Revenues					3,235,174	36,222	3,271,396
Change in Net Assets					501,509	392,640	894,149
Net Assets Beginning of Year					12,689,411	3,018,070	15,707,481
Net Assets End of Year					\$ 13,190,920	\$ 3,410,710	\$ 16,601,630

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2008

	General <u>Fund</u>	Special <u>Revenue</u>	Capital <u>Projects</u>	Total Governmental <u>Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,790,447	\$ -	\$ -	\$ 1,790,447
Investments	2,772,786	-	-	2,772,786
Receivables:				
Taxes - real and personal property	7,054	-	-	7,054
Sanitation fees	3,652	-	-	3,652
Interest	89,359	-	-	89,359
Intergovernmental	-	1,776	-	1,776
Other	40,181	-	-	40,181
Prepaid expenses	116,872	-	-	116,872
Due from other funds	(103,060)	-	104,849	1,789
Restricted Assets:				
Cash and cash equivalents	-	11,181	-	11,181
Total assets	\$ 4,717,291	\$ 12,957	\$ 104,849	\$ 4,835,097
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 124,772	\$ 334	\$ 33,266	\$ 158,372
Employee withholdings and payroll taxes	48,186	-	-	48,186
Accrued interest	-	-	33,376	33,376
Deferred revenue	74,210	10,921	-	85,131
Due to other funds	-	1,441	-	1,441
Compensated absences liability	13,637	-	-	13,637
Total liabilities	260,805	12,696	66,642	340,143
FUND BALANCES				
Designated for:				
Designated for capital improvements	586,000	-	-	586,000
Designated for emergency	250,000	-	-	250,000
Designated for beach and boardwalk	753,000	-	-	753,000
Designated for future capital replacements	1,213,000	-	-	1,213,000
Designated for sanitation equipment	974,000	-	-	974,000
Unreserved:				
Undesignated	680,486	261	38,207	718,954
Total fund balances	4,456,486	261	38,207	4,494,954
Total liabilities and fund balances	\$ 4,717,291	\$ 12,957	\$ 104,849	\$ 4,835,097

The Notes to Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2008**

Total fund balances, governmental funds	\$ 4,494,954
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.	9,359,594
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Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:

Bonds and notes payable	(519,585)
Lease purchase obligation	(3,318)
Compensated absences	(140,725)
	(663,628)
Total long-term liabilities	(663,628)

Net assets of governmental activities in the Statement of Net Assets	\$ 13,190,920
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TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2008

	General <u>Fund</u>	Special <u>Revenue</u>	Capital <u>Projects</u>	Total Governmental <u>Funds</u>
REVENUES:				
Taxes:				
Property	\$ 1,514,575	\$ -	\$ -	\$ 1,514,575
Rental real estate	765,491	-	-	765,491
Transfer	706,862	-	-	706,862
Parking revenues	1,212,336	-	-	1,212,336
Licenses, permits and fees	575,191	-	-	575,191
Police and Alderman fines and revenue	149,089	-	-	149,089
Interest	200,674	649	-	201,323
Sanitation fees	637,177	-	-	637,177
Intergovernmental revenues:				
State	-	379,977	-	379,977
Contributions	17,847	-	-	17,847
Miscellaneous	9,871	-	-	9,871
Total revenues	5,789,113	380,626	-	6,169,739
Expenditures:				
General and administration	1,109,527	-	-	1,109,527
Licenses and inspections	175,438	-	-	175,438
Public safety:				
Police	1,306,555	231,756	-	1,538,311
Alderman	52,511	-	-	52,511
Parking	308,699	-	6,363	315,062
Beach Patrol	314,140	-	-	314,140
Public works:				
Stormwater management	123,190	-	-	123,190
Streets and parks	541,548	148,767	239,629	929,944
Sanitation	476,807	-	116,855	593,662
Beach and boardwalk	271,107	-	220,261	491,368
Recreation - entertainment	108,389	-	-	108,389
Historical/Cultural	4,816	-	-	4,816
Debt service:				
Principal	-	-	267,334	267,334
Interest	-	-	35,937	35,937
Total expenditures	4,792,727	380,523	886,379	6,059,629
Excess (deficiency) of revenues over expenditures	996,386	103	(886,379)	110,110
Other financing (uses) sources				
Insurance proceeds	52,055	-	-	52,055
Transfer out	(924,586)	-	-	(924,586)
Transfer in	-	-	924,586	924,586
Loan proceeds	558,300	-	-	558,300
Sale of equipment	3,087	-	-	3,087
Total other financing sources (uses)	(311,144)	-	924,586	613,442
Net change in fund balances	685,242	103	38,207	723,552
Fund balances, beginning	3,771,244	158	-	3,771,402
Fund balances, end of year	\$ 4,456,486	\$ 261	\$ 38,207	\$ 4,494,954

The Notes to Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2008**

Net change in fund balances, governmental funds	\$ 723,552
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	777,547	
Depreciation expense	<u>(697,647)</u>	

Excess of capital outlay over depreciation expense	79,900
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Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, loans of this amount were issued:	(558,300)
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In the statement of activities, only the gains on sale of assets is reported whereas in the governmental funds, the proceeds from the sales of assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the basis of the assets sold.	(6,623)
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Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	264,679
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Governmental funds report repayment of capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in capital leases.	2,655
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	<u>(4,354)</u>	
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Change in net assets of governmental activities	<u>\$ 501,509</u>
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TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
March 31, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 325,645
Investments	250,000
Receivables:	
Water charges	284,808
Other	7,141
Prepaid expenses	18,639
Total current assets	886,233
Noncurrent assets	
Restricted cash and cash equivalents	431,759
Capital assets, at cost	6,282,554
Less accumulated depreciation	(2,544,648)
Bond issue costs, net of amortization	45,054
Total noncurrent assets	4,214,719
Total assets	\$ 5,100,952
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 12,571
Employee withholdings and payroll taxes	894
Accrued interest	36,432
Deferred revenue	2,897
Due to other funds	348
Long-term liabilities due within one year:	
General obligation bonds	244,635
Compensated absences liability	803
Total current liabilities	298,580
Noncurrent liabilities	
General obligation bonds	1,354,734
Compensated absences liability	36,928
Total noncurrent liabilities	1,391,662
Total liabilities	1,690,242
NET ASSETS	
Invested in capital assets, net of related debt	2,138,537
Unrestricted	1,272,173
Total	\$ 3,410,710

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

BUSINESS-TYPE ACTIVITIES

Year Ended March 31, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
OPERATING REVENUE	
Charges for services:	
Water	\$ 841,190
Other operating	20,661
Total operating revenues	861,851
OPERATING EXPENSES	
Water	705,229
Depreciation and amortization	201,776
Total operating expenses	907,005
Net operating income (loss)	(45,154)
NON-OPERATING REVENUE (EXPENSES)	
Non-operating revenue	502,140
Amortization of bond issue cost	(5,320)
Financial expense, net	(59,026)
Total non-operating revenue (expenses)	437,794
Change in net assets	392,640
Total net assets, beginning	3,018,070
Total net assets, ending	\$ 3,410,710

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES**

Year Ended March 31, 2008

	<u>Enterprise Fund</u> <u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 846,996
Payments to suppliers	(357,631)
Payments to employees	(341,574)
Net cash provided by operating activities	147,791
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Non-operating revenue	502,140
Advances from general fund, net	(78,340)
Net cash provided by noncapital financing activities	423,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(63,260)
Principal paid on long-term debt	(281,770)
Interest paid on long-term debt	(95,248)
Net cash used in capital and related financing activities	(440,278)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from maturity of investments	300,000
Purchase of investments	(250,000)
Interest income	36,222
Net cash provided by investing activities	86,222
Net increase in cash and cash equivalents	217,535
Cash and cash equivalents, beginning of year	539,869
Cash and cash equivalents, end of year	\$ 757,404
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (45,154)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Loss on disposal of asset	31,076
Depreciation and amortization expense	201,776
Changes in assets and liabilities:	
Receivables, net	(15,539)
Prepaid expenses	1,602
Deferred revenue	684
Accounts and other payables	(34,184)
Compensated absences liability	7,530
Net cash provided by operating activities	\$ 147,791

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Town of Bethany Beach, Delaware

The Town of Bethany Beach, Delaware ("the Town") was incorporated in 1901 under the provisions of the State of Delaware, and was reincorporated in 1986. The Town operates under a Council-Manager form of government. The Town directly provides all basic local governmental services.

A. Financial Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision of whether to include a potential component unit was made by applying the criteria set forth in the GASB standards related to component units. The basis-but not the only-criterion for including a potential component unit is the exercise of oversight responsibility by the Town's elected officials. Based upon the application of these criteria, there are no component units accompanying these statements.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds provided. Following are the more significant of the Town's accounting policies:

For the fiscal year ended March 31, 2005, the Town implemented GASB Statement 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement established new financial and reporting requirements for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, and required supplementary information.

A. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type. There are no non-major funds and fiduciary funds.

B. Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

General Fund - The general fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Town has one special revenue fund, which includes collection and disbursements of funds restricted for economic development as approved by an agency of the Federal government, state government and other sources.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities that are not financed by proprietary funds.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town's major enterprise fund is:

Water Fund - The water fund is used to account for all financial transactions, including the acquisition or construction of major capital facilities, related to the operation of the Town's water services.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The Town does not have any fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net assets.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available is defined as collected within 60 days of the fiscal year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period have been reported as deferred revenue.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

The Town Council follows these procedures in establishing the budgetary data reflected within the financial statements:

1. The Budget Committee submits to the Town Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Council meets in open session to review the proposed operating budget.
3. Not later than the public meeting and prior to the end of the preceding fiscal year, the budget is legally enacted.
4. Formal budgetary integration is employed as a management control device during the year for all the operating funds.
5. The budget for the general fund is adopted on a basis consistent with GAAP as applicable to governments.
6. The budgets for the special revenue fund are approved on a program-by-program basis by the funding agencies.
7. The Town Council may amend the approved budget periodically throughout the year.

F. Cash Equivalents

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments consist of certificates of deposit and the Delaware Local Government Investment Pool and are carried at cost, which approximates fair market value.

H. Receivables

Anticipated bad debts are considered to be negligible by the Town management and, accordingly, no provision for bad debts has been included in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over estimated useful lives of the assets, ranging from 4 to 50 years.

J. Restricted Assets

Restricted assets consist of cash and equivalents, and investments restricted for specified projects and/or purposes.

K. Bond Issue Costs

Bond issue costs are a result of the refinancing of the 1989 general obligation bonds. These costs are being amortized over the respective lives of the bonds using the straight-line method.

L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues of \$74,210 consist of permits and fees collected in advance. In the special revenue fund, deferred revenues of \$10,921 consist of grant funds received in advance.

M. Compensated Absences

An employee may accumulate 24 days of vacation pay. No sick days are accumulated until an individual's term of employment has exceeded 3 years. Then, an employee may accumulate up to 20 days of sick leave. The Town accrues a liability for compensated absences, which meet the following criteria:

- The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, the Town has accrued a liability for vacation pay and sick leave, which has been earned but not taken by Town employees. The entire compensated absences liability is reported on the government-wide financial statements. For governmental funds the long-term portion of the liability for compensated absences is not recorded since it is anticipated that none of the liability will be liquidated with

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

expendable available financial resources. The liability for compensated absences of the proprietary fund type is recorded within the fund as an accrued liability in accordance with U.S. GAAP.

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

O. Interest Capitalization

Interest costs incurred for the acquisition and/or construction of capital assets are capitalized in accordance with U.S. GAAP. The interest capitalization period begins when the following conditions are present:

- Expenditures for the capital asset have been made.
- Activities that are necessary to get the capital asset ready for its intended use are in progress.
- Interest expense is being incurred.

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2008.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Fund Balance Reserves

The Town reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Fund balance reserves have been established for various capital improvements including beach and boardwalk improvements, sanitation equipment and for emergencies.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

S. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

T. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

U. Interfund Transfers In/Out

Interfund transfers in/out are classified in other financing (uses) sources in the statement of revenues, expenditures and changes in fund balances. These transfers reflect monies designated in the General Fund for future capital projects, which are transferred to the Capital Projects Fund to offset costs of projects performed in the current year.

V. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2008 was \$0.16 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

- June 1 - Levy Date (effective date of enforceable lien)
- September 1 - 2% Penalty for each subsequent month not paid

Note 4. Cash and Investments

The deposit and investment policy of the Town adheres to business practices of Delaware municipalities. Town deposits are held in federally regulated financial institutions whose deposits are covered by the Federal Deposit Insurance Corporation (FDIC), or are collateralized with securities held by the pledging financial institution, therefore minimizing custodial credit risk.

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments (continued)

Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2008 are as follows:

Description	Financial Institution Balances				Carrying Amounts
	Category				
	1	2	3	Totals	
Cash & Cash Equivalents:					
Unrestricted	\$ 200,000	\$ 1,933,511	\$ -	\$ 2,133,511	\$ 2,116,092
Restricted	-	442,940	-	442,940	442,940
Totals	\$ 200,000	\$ 2,376,451	\$ -	\$ 2,576,451	\$ 2,559,032

Investments

The Town's investments are categorized according to the level of credit risk assumed as of the balance sheet date. Category 1 includes investments that are insured, registered or are held by the Town's agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the Town's name. At March 31, 2008, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$2,728,388	\$2,728,388
Delaware Local Government Investment Pool	3	294,398	294,398
Total Investments by Type		\$3,022,786	\$3,022,786
Investments:			
Unrestricted		\$3,022,786	\$3,022,786
Restricted		-	-
Total Investments		\$3,022,786	\$3,022,786

The Town's exposure to investment rate and credit risk is minimal, as most investments are in cash, or certificates of deposits and are thus precluded from having to sell below original cost.

NOTES TO FINANCIAL STATEMENTS

Note 5. Intergovernmental Receivables

Amount due from other governmental units represents receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. The intergovernmental receivables as of March 31, 2008, are as follows:

Description	Special Revenue
State of Delaware	\$ 1,776

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2008:

	March 31, 2007	Additions	Deductions	March 31, 2008
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Total capital assets, not being depreciated	3,391,767	-	-	3,391,767
Capital assets, being depreciated				
Beach and boardwalk	792,225	166,604	-	958,829
Building and improvements	3,516,088	53,657	(11,565)	3,558,180
Land improvements	528,383	114,779	-	643,162
Machinery and equipment	945,303	129,921	(15,197)	1,060,027
Stormwater	1,192,348	-	-	1,192,348
Streets	2,093,486	163,906	-	2,257,392
Vehicles	1,335,155	148,680	(119,273)	1,364,562
Total capital assets, being depreciated	10,402,988	777,547	(146,035)	11,034,500
Less accumulated depreciation:				
Beach and boardwalk	475,531	41,150	-	516,681
Building and improvements	982,877	134,616	(11,565)	1,105,928
Land improvements	50,874	36,063	-	86,937
Machinery and equipment	507,654	115,271	(14,770)	608,155
Stormwater	163,319	67,895	-	231,214
Streets	1,420,681	153,156	-	1,573,837
Vehicles	907,502	149,496	(113,077)	943,921
Total accumulated depreciation	4,508,438	697,647	(139,412)	5,066,673
Total capital assets, being depreciated, net	5,894,550	79,900	(6,623)	5,967,827
Governmental activities capital assets, net	\$ 9,286,317	\$ 79,900	\$ (6,623)	\$ 9,359,594

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 87,660
Licenses and inspections	-
Police and Alderman	99,927
Parking	13,985
Beach Patrol	-
Public works	
Stormwater management	90,161
Streets and parks	252,389
Sanitation	47,855
Beach and boardwalk	60,342
Recreation - entertainment	40,904
Historical association	4,424
	<u>\$ 697,647</u>

BUSINESS-TYPE ACTIVITIES

Capital assets, not being depreciated:

Construction in progress	\$ 31,077	\$ 25,258	\$ (31,077)	\$ 25,258
Total capital assets, not being depreciated	<u>31,077</u>	<u>25,258</u>	<u>(31,077)</u>	<u>25,258</u>

Capital assets, being depreciated:

Plant and water distribution system	5,870,550	38,002	-	5,908,552
Vehicles and equipment	348,744	-	-	348,744
Total capital assets, being depreciated	<u>6,219,294</u>	<u>38,002</u>	<u>-</u>	<u>6,257,296</u>

Total accumulated depreciation

	2,342,873	201,775	-	2,544,648
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Total capital assets, being depreciated, net

	<u>3,876,421</u>	<u>(163,773)</u>	<u>-</u>	<u>3,712,648</u>
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Business-type activities capital assets, net

	<u>\$ 3,907,498</u>	<u>\$ (138,515)</u>	<u>\$ (31,077)</u>	<u>\$ 3,737,906</u>
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NOTES TO FINANCIAL STATEMENTS

Note 7. Bonds and Notes Payable – Business-type Activities

The following is a summary of the changes in the business-type activities long-term debt obligations:

		Balances		Retirements		Balances	Amount
Interest	Maturity	March 31,		and		March 31,	Due in
Rate	Date	2007	Additions	Repayments		2008	One Year
Compensated absences		\$ 30,201	\$ 7,530	\$ -		\$ 37,731	\$ 803
General Obligation Bonds:							
Series 1994		\$ 1,665,000	\$ -	\$ 160,000		\$ 1,505,000	\$ 180,000
Bond Premium		172,621	-	22,735		149,886	22,735
Refunding Deferral		2.75-					
Series 1994, net	9.75% 2014	(132,247)	17,415	-		(114,832)	(17,415)
		1,705,374	17,415	182,735		1,540,054	185,320
General Obligation Refunding							
Note, Series 2004	2.49% 2009	175,765	-	116,450		59,315	59,315
		1,881,139	17,415	299,185		1,599,369	244,635
Total Business-type Activities							
Long-Term Debt		\$1,911,340	\$ 24,945	\$ 299,185		\$1,637,100	\$245,438

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2008 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2009	\$ 244,635	\$ 88,513	\$ 333,148
2010	200,320	70,225	270,545
2011	205,320	59,890	265,210
2012	220,320	49,290	269,610
2013	230,320	37,895	268,215
2014 - 2015	498,454	39,220	537,674
	\$ 1,599,369	\$ 345,033	\$ 1,944,402

Interest expense in the business-type activities for the year ended March 31, 2008 totaled \$100,568.

NOTES TO FINANCIAL STATEMENTS

Note 8. Bonds and Notes Payable – Governmental Activities

The following is a summary of the changes in the governmental activities long-term debt obligations:

	Interest Rate	Maturity Date	Balances March 31, 2007	Additions	Retirements and Repayments	Balances March 31, 2008	Amount Due in One Year
Compensated absences			\$ 149,081	\$ 5,281	\$ -	\$ 154,362	\$ 13,637
General Obligation Note, Series 2003	2.57%	2009	\$ 225,964	\$ -	\$ 149,679	\$ 76,285	\$ 76,285
State of Delaware Pension	8.00%	2012	-	558,300	115,000	443,300	79,536
			225,964	558,300	264,679	519,585	155,821
Total Governmental Activities Long-Term Debt			\$ 375,045	\$ 563,581	\$ 264,679	\$ 673,947	\$ 169,458

The following is a schedule of annual principal maturities for all governmental activities long-term debt:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 155,821	\$ 36,444	\$ 192,265
2010	85,899	29,101	115,000
2011	92,771	22,229	115,000
2012	100,192	14,808	115,000
2013	84,902	6,792	91,694
	<u>\$ 519,585</u>	<u>\$ 109,374</u>	<u>\$ 628,959</u>

Interest expense in the governmental activities for the year ended March 31, 2008 totaled \$35,660.

The Town has entered into leases for the acquisition of various machinery and equipment, which are classified as capital leases. Accordingly, the present value of future minimum lease payments and the related assets have been recorded in the appropriate fund.

Original cost of assets acquired under these capital leases for the general fund is \$13,273 with accumulated depreciation of \$9,734 as of March 31, 2008.

Following is a summary of total future minimum lease payments for all capital leases:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,655	\$ 279	\$ 2,934
2010	663	70	733
	<u>\$ 3,318</u>	<u>\$ 349</u>	<u>\$ 3,667</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Reserved and Designated Fund Balances/Net Assets

Reservations of fund balances show amounts that are not available for current appropriations or are legally restricted for specific uses. Designations of fund balances are used to show the amounts within unreserved fund balances, which are intended to be used for specific purposes but are not legally restricted. The purpose for each reservation or designation is indicated by the account title on the face of the balance sheet.

Note 10. Post-Employment Healthcare Benefits

The Town provides post-retirement healthcare benefits, for employees retiring prior to June 1, 1999, in accordance with Town statutes, to all employees who retire on or after attaining age 62 with at least 7 years of service. Currently three retirees are eligible for these benefits and all are receiving such benefits. The cost of healthcare benefits is recognized as an expenditure as claims are paid. During the fiscal year ended March 31, 2008 the cost of healthcare benefits for retirees was approximately \$9,100.

The Town also provides healthcare benefits for one individual based upon an agreement made during the time of employment. During the fiscal year ended March 31, 2008 the cost of healthcare benefits was approximately \$14,000.

Note 11. Pension and Retirement Plans

Effective on June 30, 2006, the Town entered into the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan. In May 2007, the Town opted to incur a special actuarial liability of \$558,300, which was based on the demographics of the employees and the well funded status of the two Delaware plans. Starting in fiscal year 2008, the Town will be required to make 5 annual payments of \$115,000 with a final payment of \$91,694 in May 2012 to satisfy the liability. The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was \$67,927 and \$56,971 for the fiscal year, respectively.

Plan Description

All regular employees of the Town participate in the State of Delaware County and Municipal Other Employees' Pension Plan. Police officers participate in the State of Delaware County and Municipal Police and Firefighters' Plan. Both plans are cost sharing multiple employer public retirement systems included in the Delaware Public Employees Retirement System and administered by the State of Delaware Board of Pension Trustees. The plans are outlined in the Delaware State Code sections Title 29 chapters 55A and Title 11 chapter 88. The Delaware Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite #1, Dover, DE 19904-2402 or on their website.

General participants in the System may retire with full benefits after thirty years of service regardless of age or at various ages with specified years of eligible service for reduced benefits. Police officers may retire with full benefits after twenty years of service regardless of age or earlier at reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to vesting in the plans are refunded their accumulated contributions plus earned interest. Employees are vested in the plans after 5 years of service. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of credible service and final average compensation.

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension and Retirement Plans (continued)

Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2008 the Town was required to contribute 6.2% of total compensation for general employees and 13.6% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on July 1, 2006. Contributions paid the year ended March 31, 2008 and for the six months included in the fiscal year ended March 31, 2007 are as follows:

	2008	2007	2006
Creditable wages	\$ 1,563,296	\$ 1,221,686	n/a
Contributions paid:			
General employees	67,927	45,176	n/a
Police officers	56,971	46,680	n/a

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risk financing techniques include the purchase of commercial insurance.

The Town is fully insured for workers' compensation, employee health, and accident insurance through commercial insurance, and employees are bonded to limit the loss to the Town in the event of employees committing acts of embezzlement or theft. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS

Note 13. Commitments, Contingencies and Subsequent Events

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

The Town is a defendant in several lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not, in the aggregate, have a material adverse effect on the financial position of the Town.

Effective May 8, 2008, the Town entered into an agreement with the Bethany Beach Volunteer Fire Company to provide ambulance service to the Town for the next 10 years with a termination date of December 31, 2018. The Town will be required to make annual contributions of approximately \$100,000 per year for the ambulance services.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended March 31, 2008

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes:				
Property	1,491,000	\$ 1,491,000	\$ 1,514,575	\$ 23,575
Rental real estate	720,000	720,000	765,491	45,491
Transfer	600,000	600,000	706,862	106,862
Parking Revenues	1,140,000	1,140,000	1,212,336	72,336
Licenses, permits and fees	597,300	597,300	575,191	(22,109)
Police and Alderman fines and revenue	120,000	120,000	149,089	29,089
Interest	100,000	100,000	200,674	100,674
Sanitation fees	634,500	634,500	637,177	2,677
Contributions	12,000	12,000	17,847	5,847
Miscellaneous	9,500	9,500	9,871	371
Total revenues	5,424,300	5,424,300	5,789,113	364,813
EXPENDITURES:				
General and administration	862,300	1,164,300	1,109,527	54,773
Licenses and inspections	185,400	185,400	175,438	9,962
Public safety:				
Police	1,113,800	1,395,100	1,306,555	88,545
Alderman	52,700	52,700	52,511	189
Parking	248,600	308,600	308,699	(99)
Beach Patrol	294,300	317,300	314,140	3,160
Public works:				
Stormwater management	180,300	180,300	123,190	57,110
Streets and parks	569,000	569,000	541,548	27,452
Sanitation	505,000	505,000	476,807	28,193
Beach and boardwalk	271,900	271,900	271,107	793
Recreation - entertainment	113,600	113,600	108,389	5,211
Historical/Cultural	20,000	20,000	4,816	15,184
Total expenditures	4,416,900	5,083,200	4,792,727	290,473
Excess (deficiency) of revenues over expenditures	1,007,400	341,100	996,386	655,286
OTHER FINANCING SOURCES (USES):				
Insurance proceeds	-	-	52,055	52,055
Transfer out	-	-	(924,586)	(924,586)
Loan proceeds	-	-	558,300	558,300
Sale of equipment	-	-	3,087	3,087
Total other financing sources	-	-	(311,144)	(363,199)
Net change in fund balance	\$ 1,007,400	\$ 341,100	685,242	\$ 292,087
Fund balance - beginning			3,771,244	
Fund balance - ending			\$ 4,456,486	

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
EXPENDITURES:				
General and administration	\$ 20,000	\$ 20,000	\$ -	\$ 20,000
Public safety:				
Parking	-	7,000	6,363	637
Public works:				
Streets and parks	250,000	250,000	239,629	10,371
Sanitation	225,000	225,000	116,855	108,145
Beach and boardwalk	159,000	227,000	220,261	6,739
Debt service:				
Principal	232,000	232,000	267,334	(35,334) (a)
Interest	41,000	41,000	35,937	5,063
Total expenditures	927,000	1,002,000	886,379	115,621
OTHER FINANCING SOURCES:				
Operating transfers in	-	-	924,586	924,586
Total other financing sources	-	-	924,586	924,586
Net change in fund balance	\$ (927,000)	\$ (1,002,000)	38,207	\$ 1,040,207
Fund balance - beginning			-	
Fund balance - ending			<u>\$ 38,207</u>	

(a) Budget is on cash basis. Difference relates to first year of pension interest expense being accrued.

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest and rents	\$ -	\$ -	\$ 649	\$ 649
Intergovernmental revenues:				
State	-	-	379,977	379,977
Total revenues	-	-	380,626	380,626
EXPENDITURES:				
Public safety:				
Police	69,254	231,756	231,756	-
Public works:				
Streets and parks	146,712	148,767	148,767	-
Total expenditures	215,966	380,523	380,523	-
Excess of revenues over expenditures	(215,966)	(380,523)	103	380,626
Net change in fund balance	\$ (215,966)	\$ (380,523)	103	\$ 380,626
Fund balance - beginning			158	
Fund balance - ending			<u>\$ 261</u>	

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
WATER FUND**

Year Ended March 31, 2008

WATER SERVICE:

Operating revenues:

Charges for services	\$ 841,190
Other service fees	18,540
Miscellaneous	2,121

Total operating revenues	861,851
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Operating expenses:

Salaries and wages	255,467
Payroll taxes	18,845
Employee benefits	74,792
Administrative fees	4,674
Contract services	28,995
Insurance	29,879
Telephone	5,634
Utilities	66,337
Repairs and maintenance	26,860
Engineering	2,162
Sewer service charge	479
Plant maintenance	15,478
Distribution system maintenance	32,445
Office supplies	5,272
Miscellaneous	37,052
Supplies	16,707
Chemicals	83,342
Uniforms	809
Depreciation	201,776

Total operating expenses	907,005
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Net operating income (loss)	(45,154)
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Non-operating revenue (expenses):

Taxes and assessments	388,103
Impact fees	114,037
Interest income	36,222
Amortization on bond issue costs	(5,320)
Interest expense	(95,248)

Net non-operating revenues	437,794
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NET INCOME	\$ 392,640
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Town's management, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Salisbury, Maryland
June 16, 2008